



Q1 2018 Results

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Highlights

Operations

- The Bank's after-tax profit in Q1 of 2018 was ISK 8.1 bn, as compared with ISK 7.6 bn for the same period of 2017.
- The Bank's net interest income was ISK 9.6 bn, as compared with ISK 8 bn in Q1 2017.
- Value changes in the credit portfolio were positive by ISK 1 bn as compared with a positive change in the amount of ISK 1.8 bn in Q1 of 2017.
- Net commission income for the period amounted to ISK 1.7 bn as compared with ISK 2.1 bn during the same period the previous year.
- Other operating income amounted to ISK 4.5 bn, as compared with ISK 3.8 bn in Q1 2017. This is due mostly to sale gains from assets held for sale.
- Salaries and related expenses increase by ISK 172 m, which is a 5% increase from the same period in 2017.
- Operating expenses amounted to ISK 2.3 bn, down by 4% as compared with the same period in 2017.
- Return on equity (ROE) after taxes was 13.7% in Q1 as compared with a ROE of 12.5% for the same period in 2017.
- The interest margin on assets and liabilities was 2.7% at the end of Q1 2018, as compared to 2.2% at the end of Q1 2017.
- The cost-income ratio for the first three months of the year was 37.9%, as compared with 42.5% for the same time last year.
- The effective income tax rate for Q1 of 2018 was 18.9%.

Balance sheet

- Total assets amounted to ISK 1,206 bn at the end of March 2018.
- Lending increased by ISK 11 bn from the beginning of the year. Growth of the lending portfolio is divided equally between households and corporates.
- Deposits increased by ISK 17 bn from the beginning of the year. Household finances continued to improve and the increased in household deposits amounts to ISK 8 bn.
- Landsbankinn's equity at the end of March 2018 amounted to ISK 228.6 bn, down by 7% since the beginning of the year, which is due to an ISK 24.8 bn dividend, paid in two instalments. The earlier instalment was paid out in March and the latter will take place in September.
- The total equity ratio is now 24.7%, down from 26.7% at year-end 2017. The Bank's liquidity position is strong, overall and in foreign currencies, and well above regulatory requirements.

Main results

	Q1 2018	Q1 2017	2017	2016
Profit after taxes	8,102	7,576	19,766	16,643
Return on equity after taxes	13.7%	12.5%	8.2%	6.6%
Adjusted return on equity after taxes*	13.8%	11.7%	9.0%	7.7%
Interest spread as a ratio of assets and liabilities	2.7%	2.2%	2.5%	2.3%
Cost-income ratio**	37.9%	42.5%	46.1%	48.4%

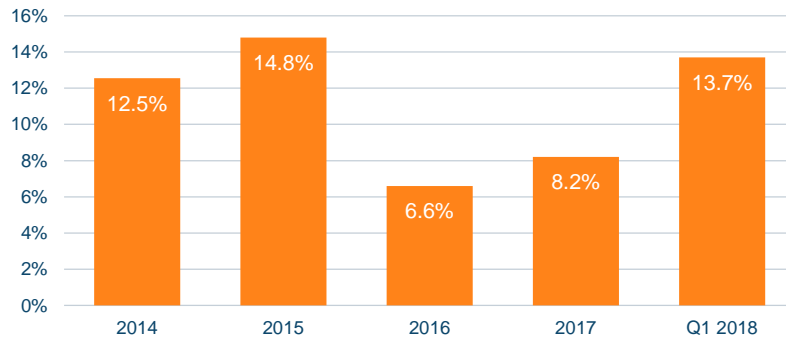
	31.3.2018	31.3.2017	31.12.2017	31.12.2016
Total assets	1,206,148	1,182,467	1,192,870	1,111,157
Loans to customers	936,636	872,350	925,636	853,417
Deposits from customers	622,021	594,565	605,158	589,725
Equity	228,601	233,894	246,057	251,231
Total capital ratio	24.7%	27.4%	26.7%	30.2%
Net stable funding ratio NSFR total	120%	122%	124%	123%
Net stable funding ratio NSFR FX	168%	159%	179%	154%
Liquidity ratio LCR total	171%	158%	157%	128%
Liquidity ratio LCR FX	751%	153%	931%	743%
Arrears (>90 days)	0.6%	1.3%	0.9%	1.5%
Full-time eqv. positions	998	1,000	997	1,012

*Adjusted ROE after taxes= (Profit after taxes – positive value adjustments after taxes – tax on total liabilities of financial institutions – profit from discontinued operations after taxes) / average equity position

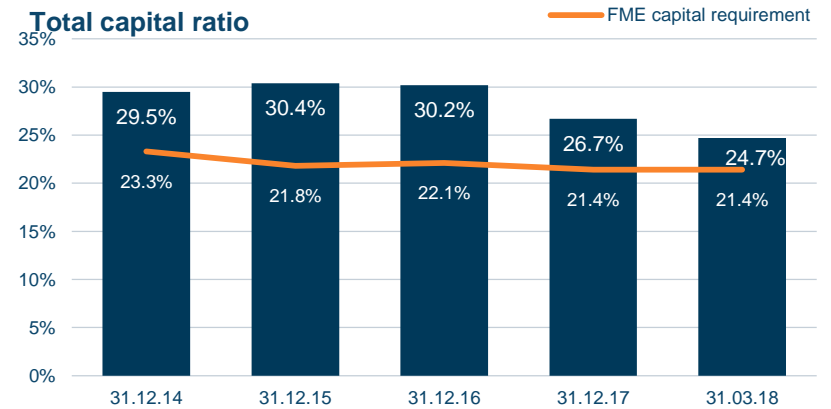
**Cost-income ratio = Total operating expenses / (Net operating revenue-value net adjustments in valuation)

Development of KPIs

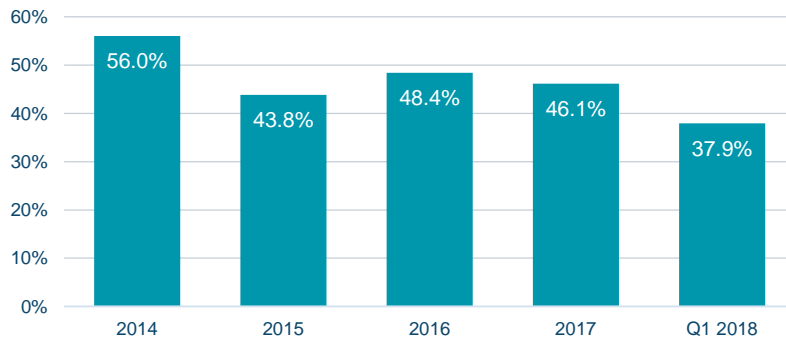
Return on equity after taxes



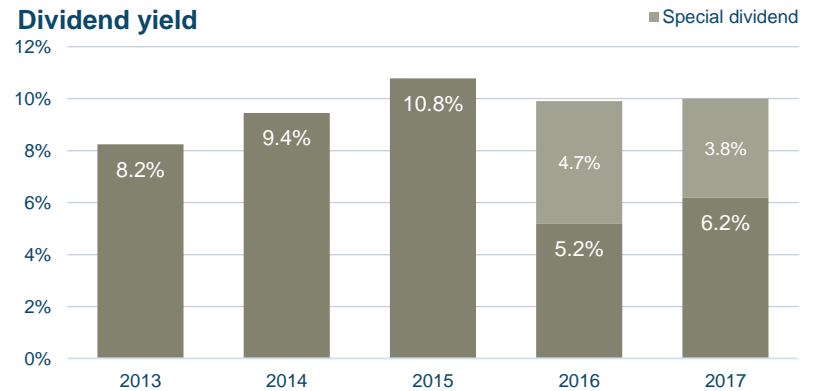
Total capital ratio



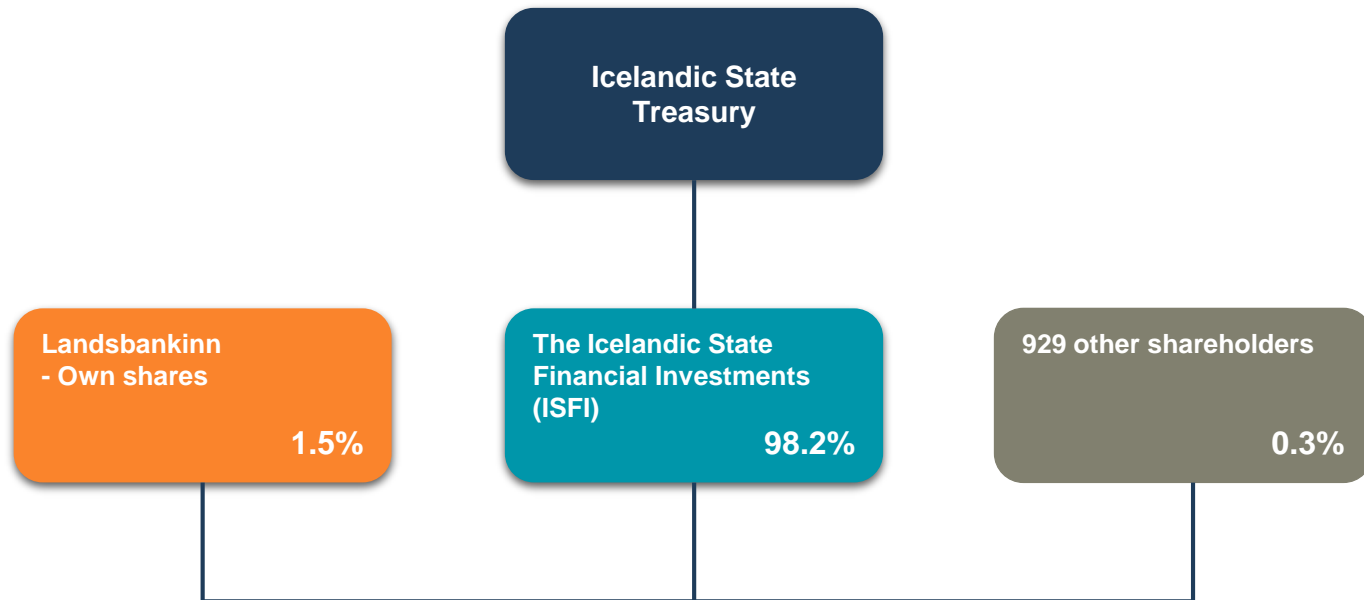
Cost-income ratio excluding valuation adjustments



Dividend yield



Ownership

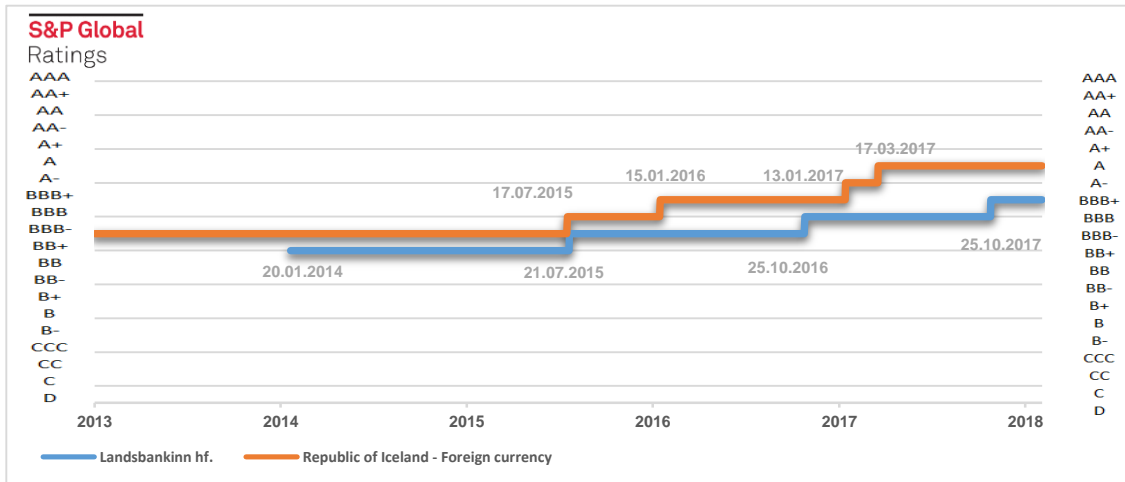


- The Finance Ministry published an ownership policy in July 2017 in regards to equity holdings in financial companies that are supervised by the Icelandic State Financial Investments (ISFI).



- In regards to Landsbankinn the policy states,
 - The government will retain a significant equity stake in the bank (34-40%) to ensure stability in the domestic financial sector.
 - The remaining equity stake will be sold in the next few years given favorable market conditions.
 - Equity in Landsbankinn will be listed on a stock exchange.

Credit rating



S&P Global Ratings

Fundamental factors for Landsbankinn:

- Very strong capital and earnings
- Strong liquidity position
- Average funding profile
- Adequate business position
- Moderate risk position

	Icelandic sovereign	Landsbankinn hf.
Long-term rating	A	BBB+
Short-term rating	A-1	A-2
Outlook	Stable	Stable
Last rating action	March 2017	October 2017



Financial objectives

	Objective	Q1 2018	Guidelines
Return on equity (ROE)	≥ 10%	13.7%	Long-term objective. Expected ROE in 2018 is projected to be 7-8%.
Cost-income ratio (C/I ratio)	≤ 45%	37.9%	Long-term objective. Expected ratio in 2018 is projected to be 43-48%.
Total capital ratio (TCR)	≥ 23%	24.7%	The Bank's aim is to maintain capital ratios above the FME's capital requirements at any given time, plus a 1.5-2.5% management buffer. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies. Long-term objective to be reached in stages leading up to 2020.
Common Equity Tier 1 capital (CET1)	≥ 18%	24.6%	
Dividend payout ratio	60 - 80%	78%*	The aim is also to make special dividend payments to further optimise the Bank's capital structure.

* AGM in March 2018 approved special dividend ISK 9,456 bn

Landsbankinn's successes

First to join Nordic collaboration



Nordic Financial CERT

Landsbankinn is the first Icelandic bank to become a member of this Nordic collaboration to boost cyber security.

Credit rating



S&P Global Ratings upgraded Landsbankinn's credit rating to BBB+/A-2 with a stable outlook.

Aukakrónur



Customers who use Aukakrónur are more satisfied with the benefits they receive than users of other benefits systems

Good governance



Landsbankinn was recognised as a model of good corporate governance in 2015, 2016, 2017 and 2018.

PRI



Landsbankinn is a member of the United Nation's Principles for Responsible Investment (UNPRI)

PwC's Equal Pay Audit



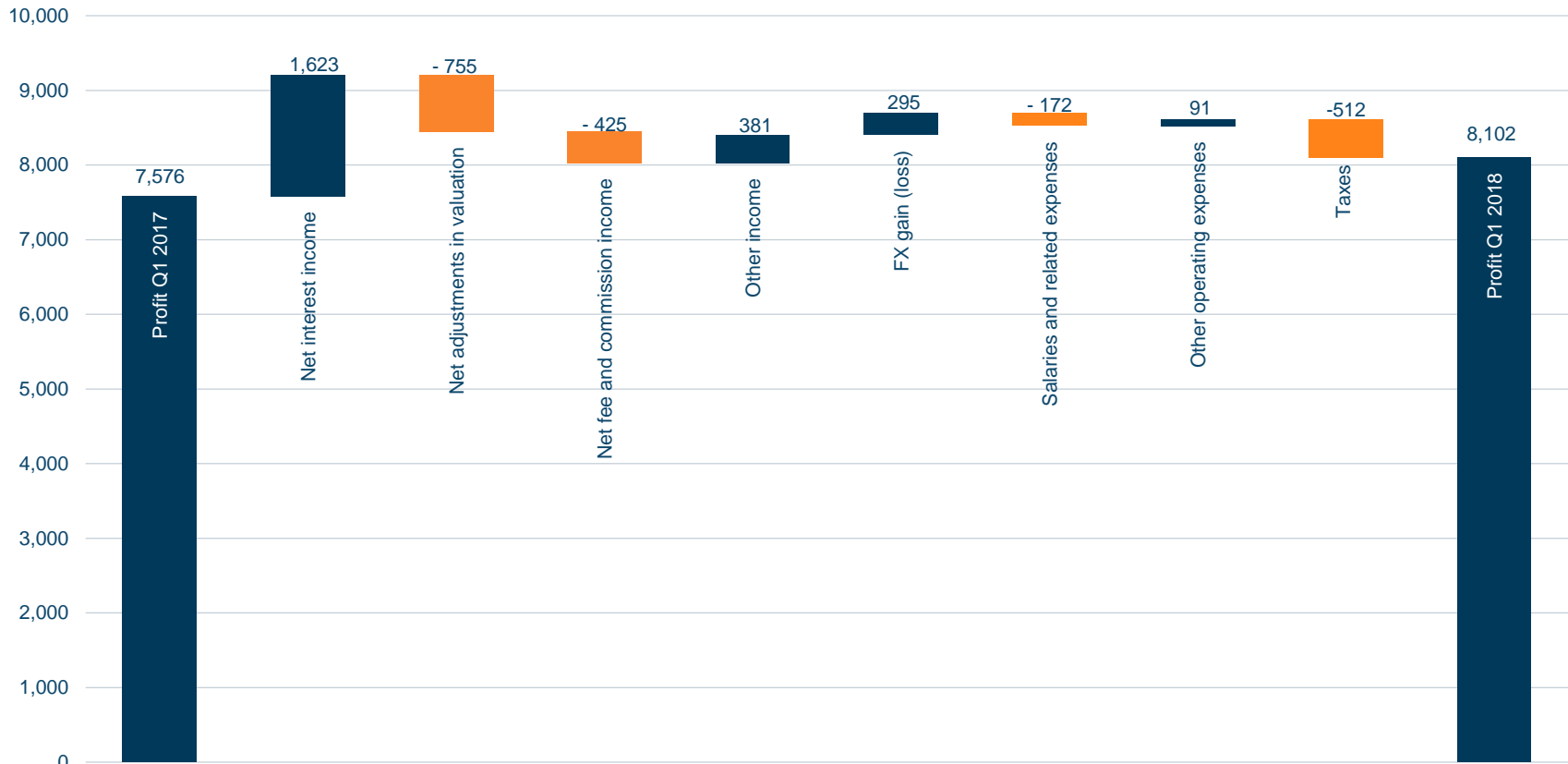
Landsbankinn has twice received the Golden Seal of PwC's Equal pay Audit.



Income Statement

Income Statement

Change from Q1 2017 to Q1 2018



Income Statement

	Q1 2018	Q1 2017	Change	
Net interest income	9,641	8,018	1,623	20%
Net adjustments in valuation	1,024	1,779	-755	-42%
Net interest income after adjustments in valuation	10,665	9,797	868	9%
Net fee and commission income	1,691	2,116	-425	-20%
Other net operating income	4,476	3,800	676	18%
Total operating income	16,832	15,713	1,119	7%
Salaries and related expenses	3,663	3,491	172	5%
Other operating expenses	2,335	2,426	-91	-4%
Total operating expenses	5,998	5,917	81	1%
Profit before tax	10,834	9,796	1,038	11%
Income tax expense and tax on liabilities of financial institutions	2,732	2,220	512	23%
Profit for the period	8,102	7,576	526	7%

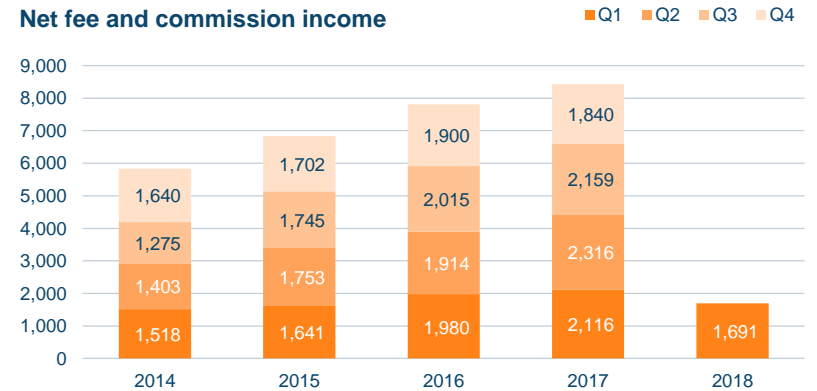
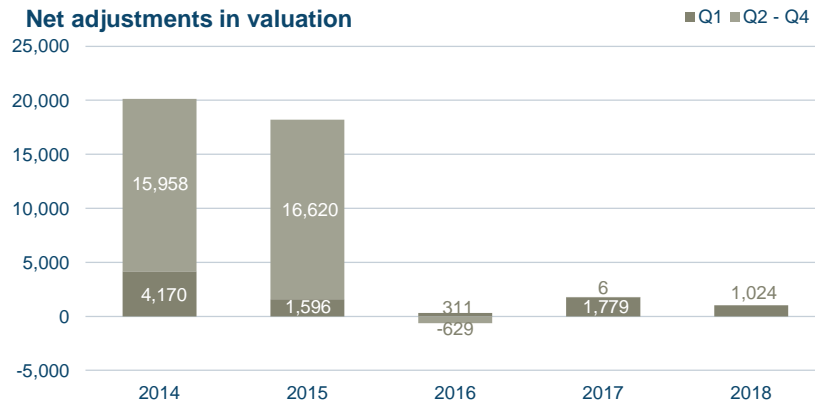
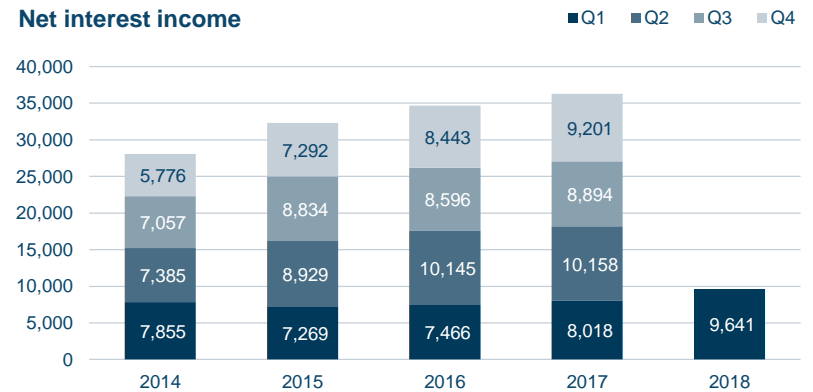
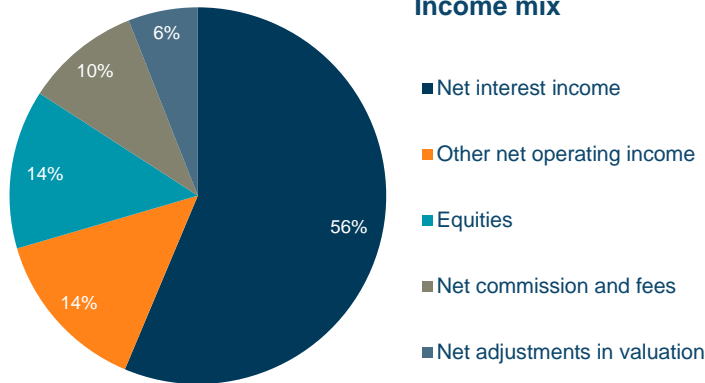


Net interest income and valuation adjustments

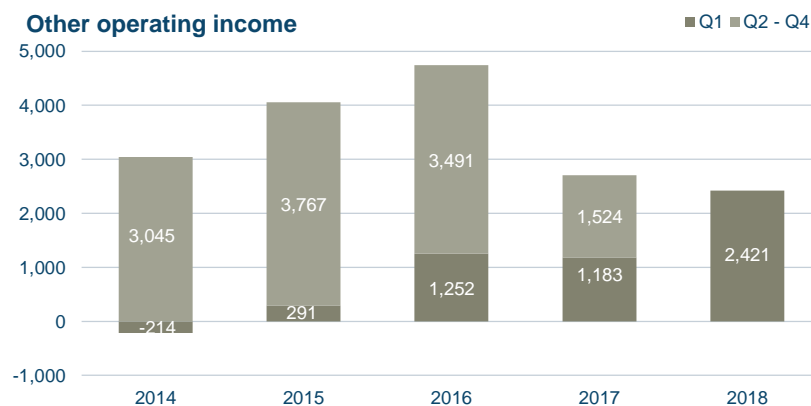
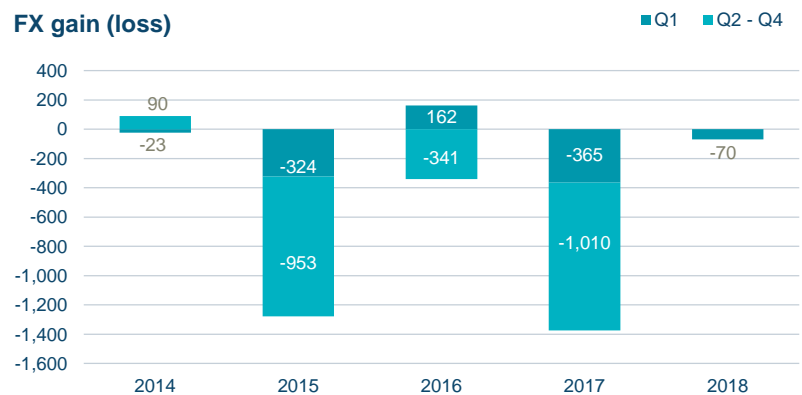
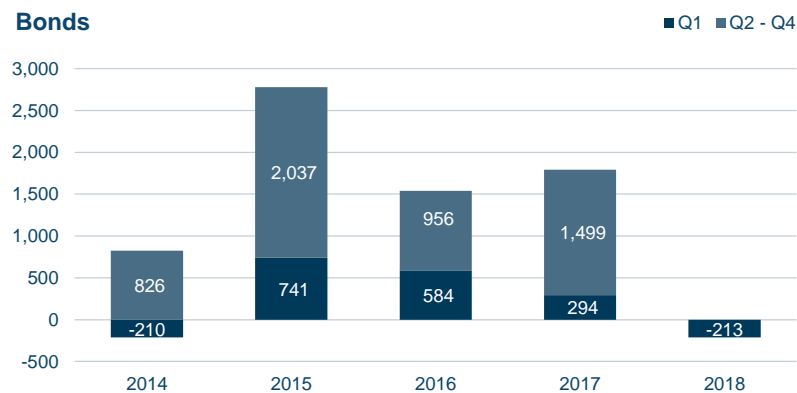
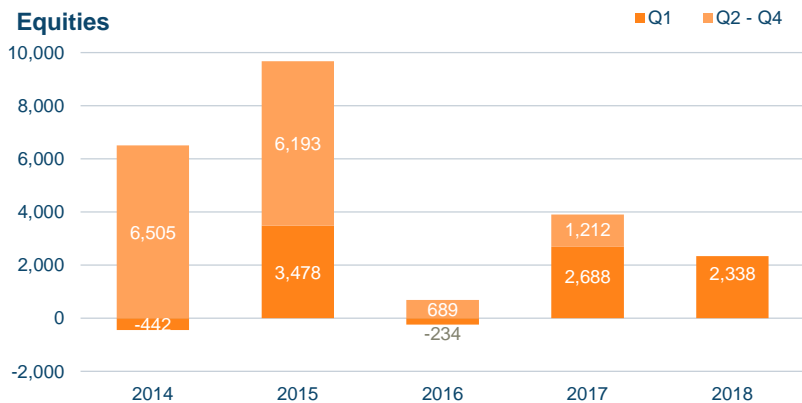
	Q1 2018	Q1 2017	Change	
Interest income	16,059	14,545	1,514	10%
Interest expense	-6,418	-6,527	109	2%
Net interest income	9,641	8,018	1,623	20%
Net impairment loss on loans and guarantees	1,024	1,024	0	0%
Net impairment from foreign currency linkage of loans and advances to customers	0	755	-755	100%
Net valuation adjustments	1,024	1,779	-755	-42%
Net interest income after net valuation adjustments	10,665	9,797	868	9%



Net operating income

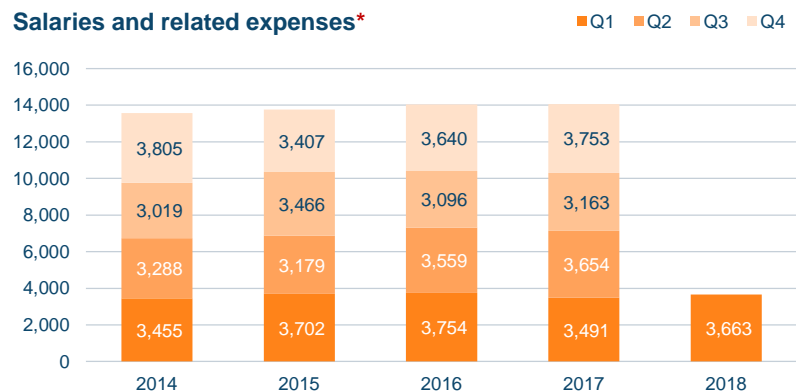


Net operating income

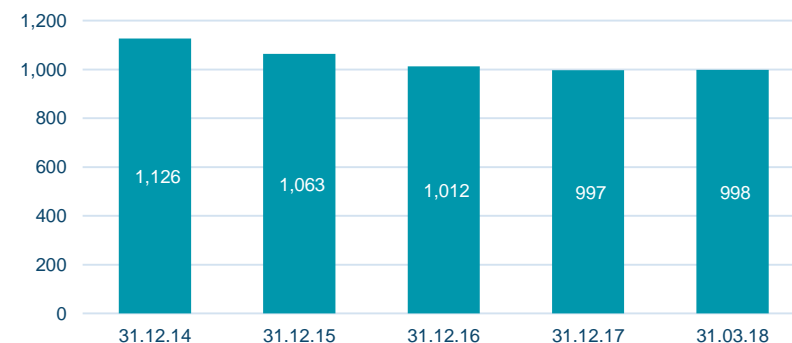


Operating expenses

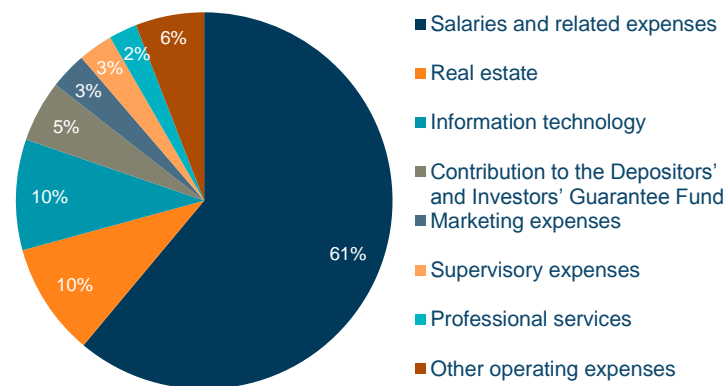
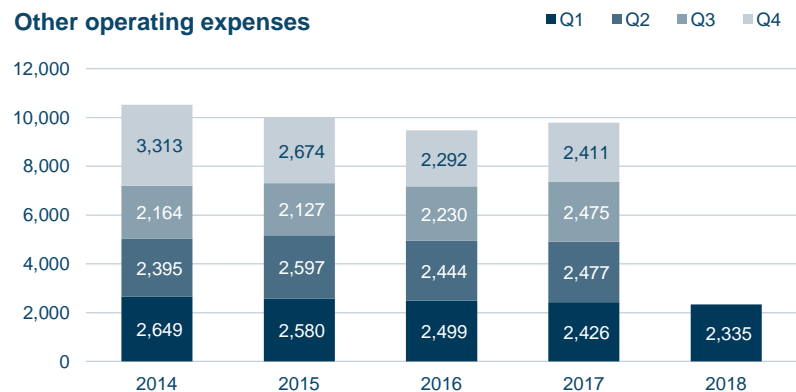
Salaries and related expenses*



Full time employees



Other operating expenses



Taxes

	Q1 2018	Q1 2017	Change	
Income tax	1,594	1,083	511	47%
Special financial activities tax on profits ¹	298	312	-14	-4%
Income Tax	1,892	1,395	497	36%
Tax on liabilities of financial institutions ²	840	825	15	2%
Special financial activities tax on salaries ³	168	162	6	4%
Total	2,900	2,382	518	22%

¹ A 6% additional tax on pre-tax profit over ISK 1 bn

² Special tax on financial institutions of 0.376% is levied of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The special income tax on financial institutions is a non-deductible expense

³ A 5.5% tax on salaries which is expensed in the line item "Salaries and related expenses" in the income statement

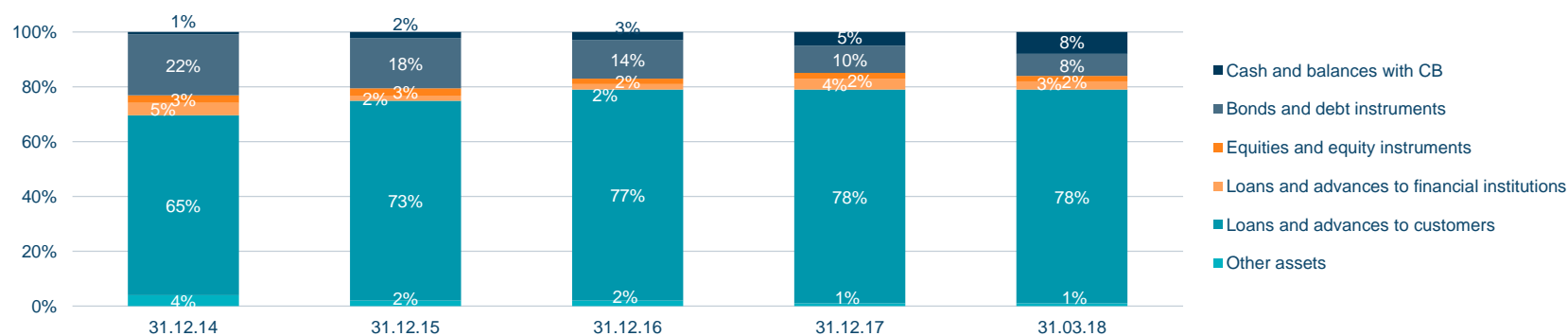


Balance sheet

Assets

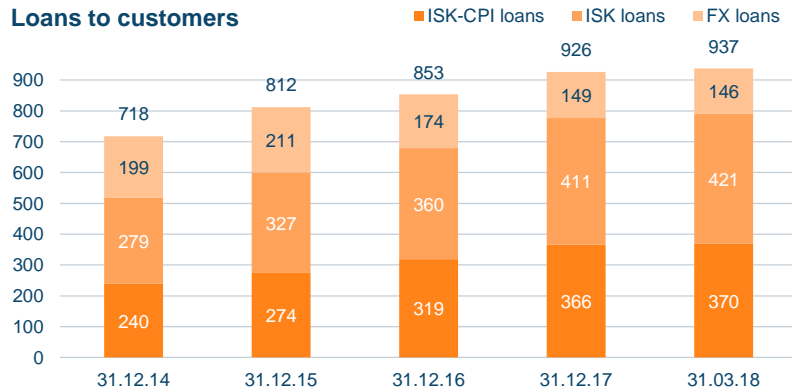
	31.03.2018	31.12.2017	Change	
Cash and balances with CB	82,266	55,192	27,074	49%
Bonds and debt instruments	100,216	117,310	-17,094	-15%
Equities and equity instruments	25,666	27,980	-2,314	-8%
Loans and advances to financial institutions	41,796	44,866	-3,070	-7%
Loans and advances to customers	936,636	925,636	11,000	1%
Other assets	17,455	18,238	-783	-4%
Assets classified as held for sale	2,113	3,648	-1,535	-42%
Total	1,206,148	1,192,870	13,278	1%

Assets

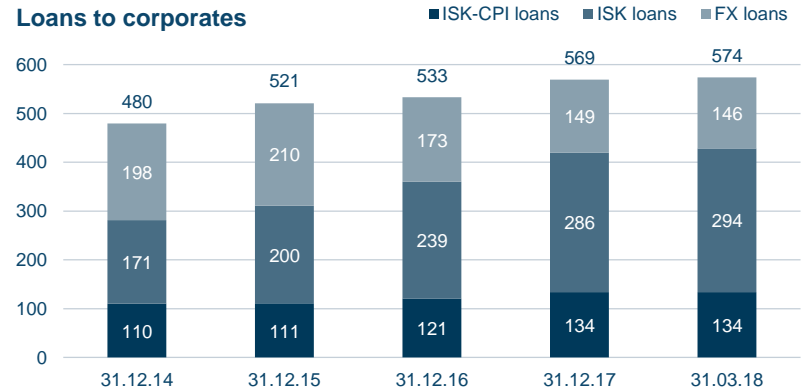


Loans

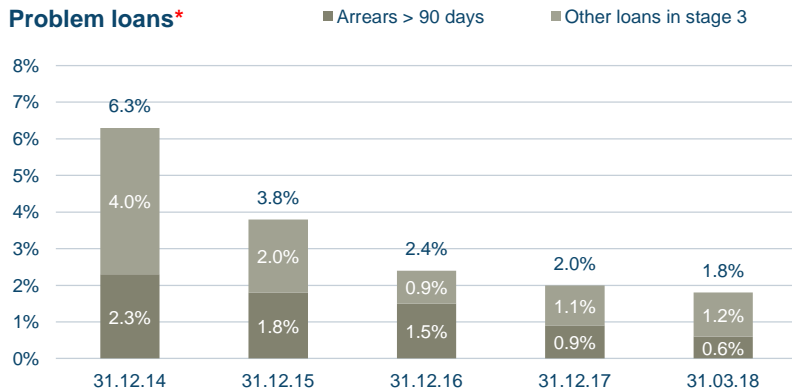
Loans to customers



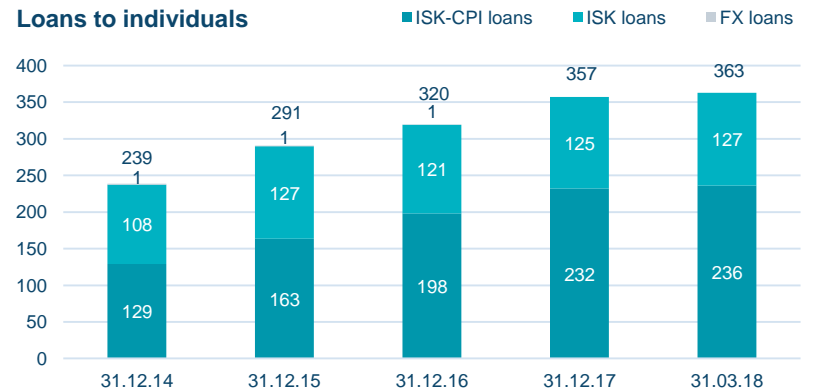
Loans to corporates



Problem loans*

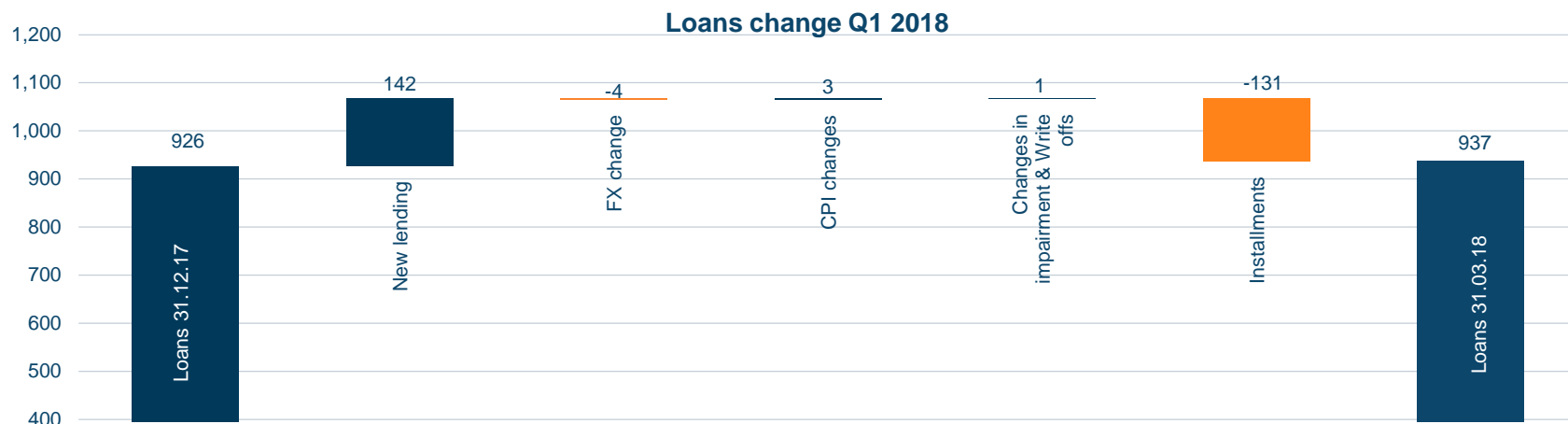


Loans to individuals

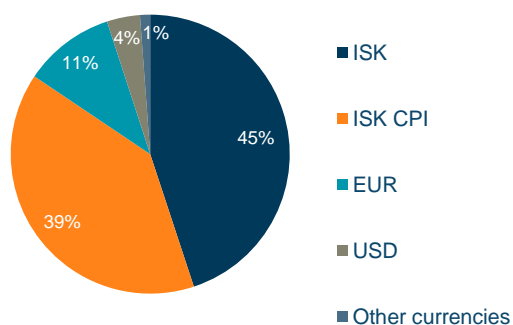


* until 31.12.2017 problem loans were defined as loans and advances with individual allowance and/or more than 90 days in arrears

Loans



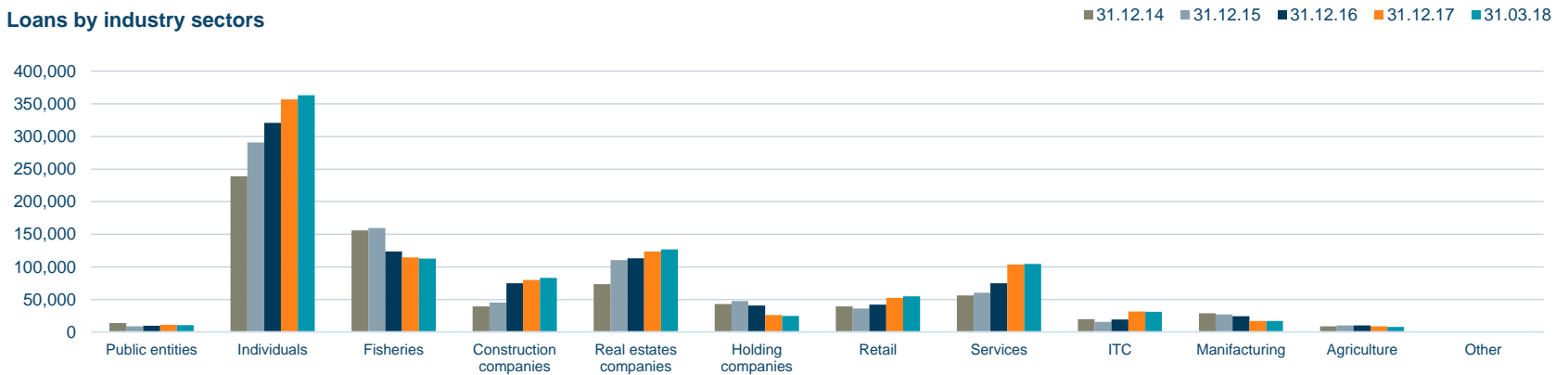
Loans by currencies



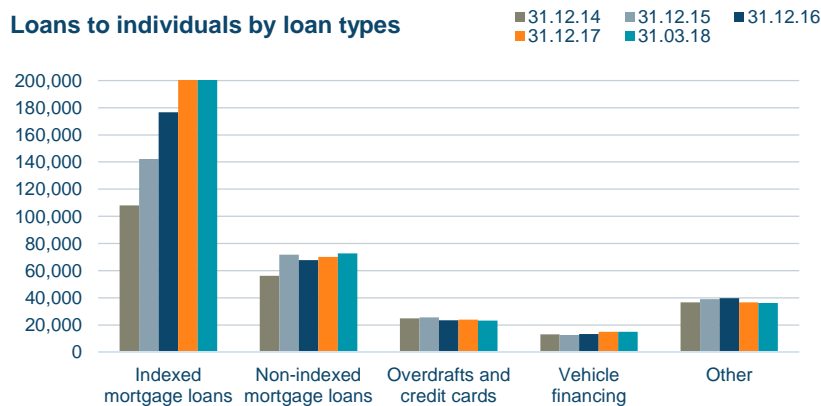
	31.3.2018	31.12.2017	Change	
ISK	421	411	10	2%
ISK CPI	370	366	4	1%
EUR	99	99	0	0%
USD	36	38	-2	-5%
Other currencies	11	12	-1	-8%
Total loans	937	926	11	1%

Loans

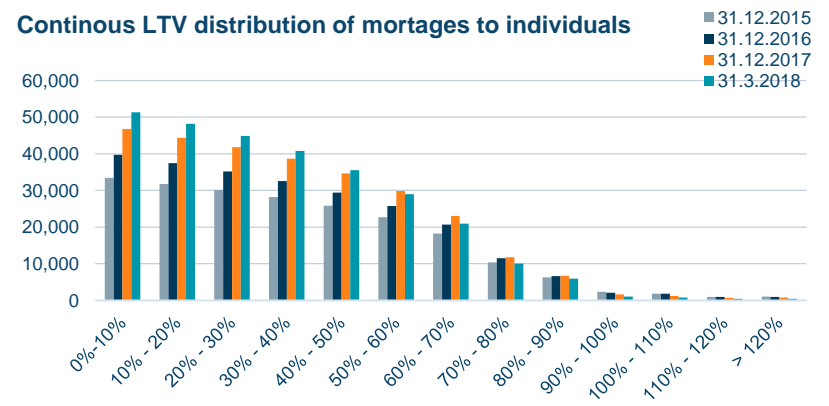
Loans by industry sectors



Loans to individuals by loan types



Continous LTV distribution of mortgages to individuals



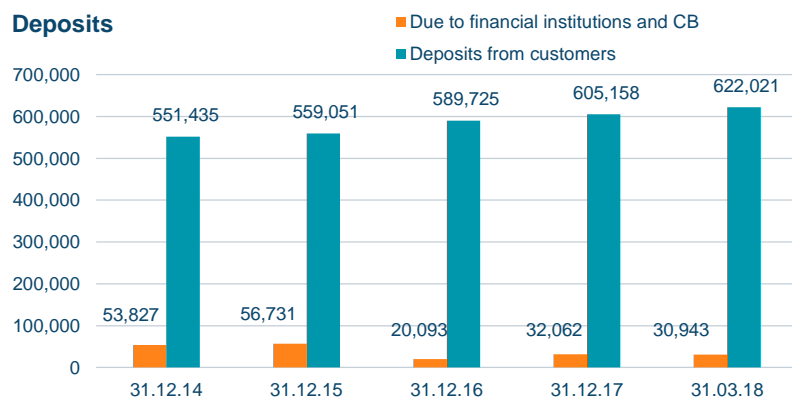
Weighted average LTV 31.03.18 59.9% (62,3% 31.12.17; 62.3% 31.12.16 ; 63.4% 31.12.15)



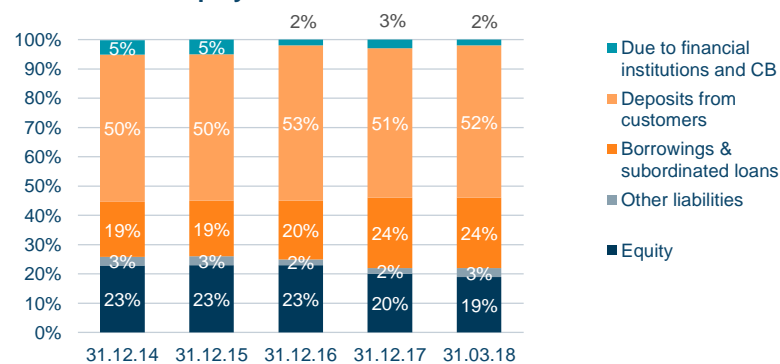
Liabilities and equity

	31.3.2018	31.12.2017	Change	
Due to financial institutions and CB	30,943	32,062	-1,119	-3%
Deposits from customers	622,021	605,158	16,863	3%
Borrowings	284,484	281,874	2,610	1%
Other liabilities	40,025	27,642	12,383	45%
Subordinated liabilities	74	77	-3	-4%
Equity	228,601	246,057	-17,456	-7%
Total	1,206,148	1,192,870	13,278	1%

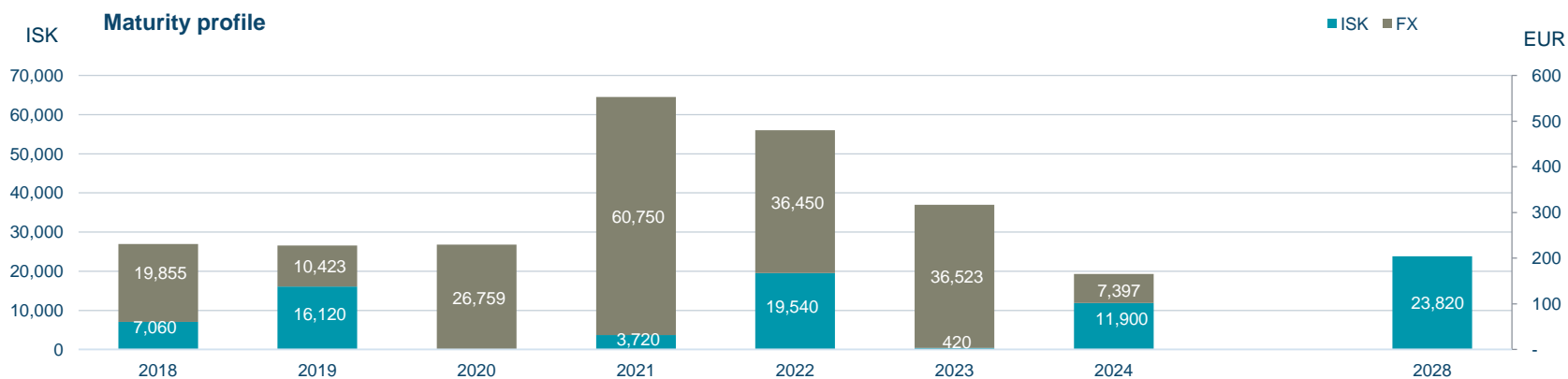
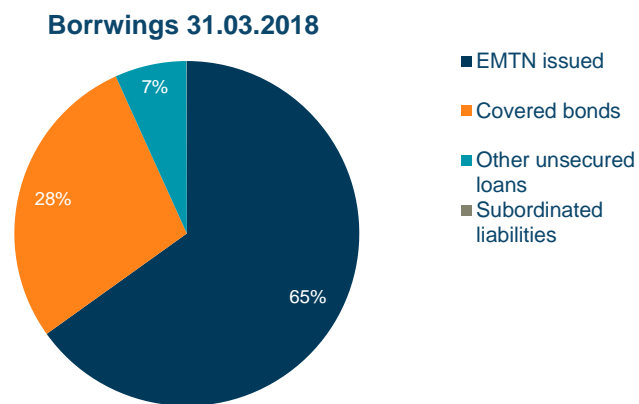
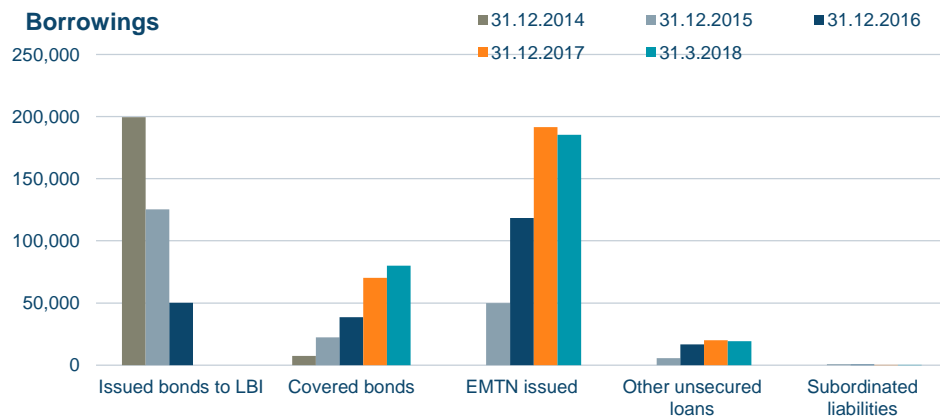
Deposits



Liabilities and equity



Borrowings

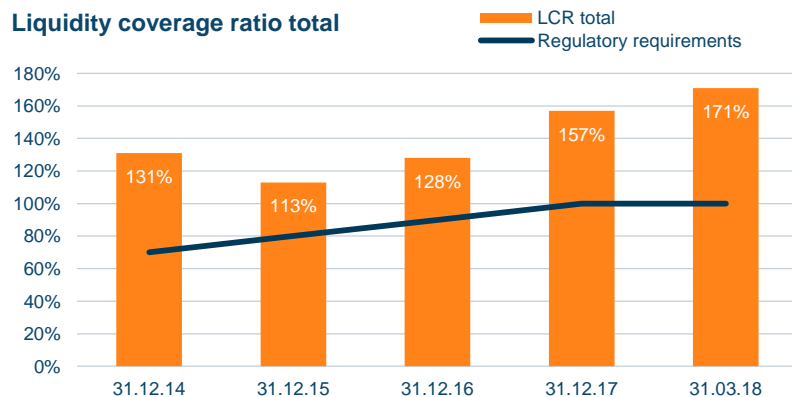


Liquidity

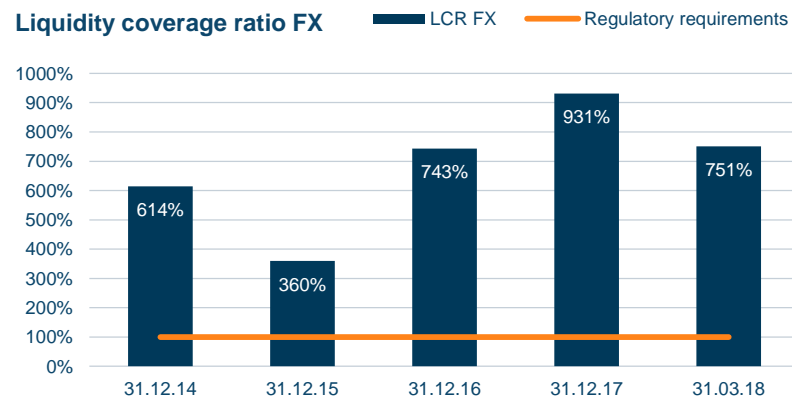
31.03.2018	Total*		FX*	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	120,558	120,558	59,186	59,186
information items	13,942	0	9,718	0
A. Total liquid assets	134,500	120,558	68,904	59,186
Deposits	459,649	113,771	60,939	27,790
Borrowing	1,440	1,440	0	0
Other outflows	149,261	18,202	33,868	3,745
B. Total outflows (0-30 days)	610,350	133,413	94,807	31,535
Loans and advances to financial institutions	54,250	39,641	41,635	39,598
Other inflows	50,307	23,388	9,890	5,159
Limit on inflows	0	0	0	-21,105
C. Total inflows (0-30 days)	104,557	63,029	51,525	23,652
Liquiditiy coverage A/(B-C)		171%		751%

*according to the liquidity and funding rules set by the Central Bank of Iceland, No. 266/2017

Liquidity coverage ratio total



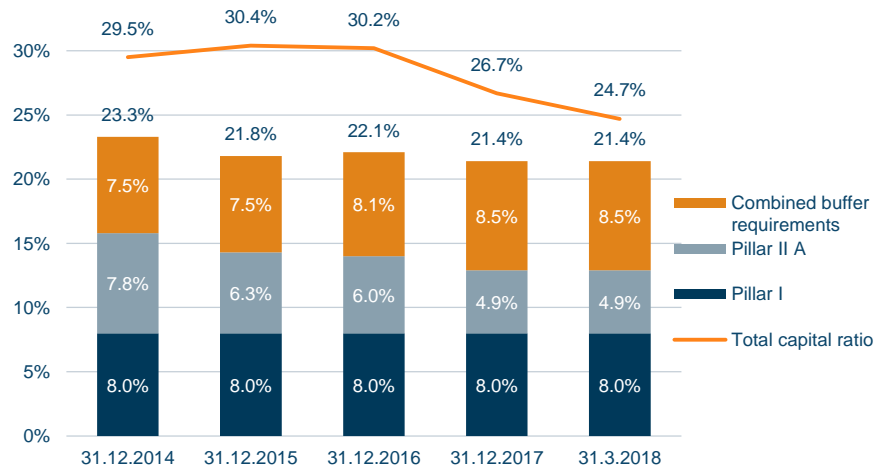
Liquidity coverage ratio FX



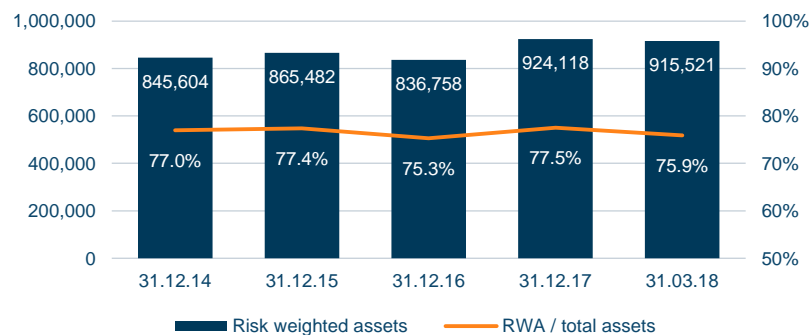
Capital requirements

	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II A	2.8%	3.7%	4.9%
Minimum requirements under Pillar I and Pillar IIA	7.3%	9.7%	12.9%
Systemic risk buffer	2.8%	2.8%	2.8%
Capital buffer for systematically important institutions	2.0%	2.0%	2.0%
Countercyclical capital buffer	1.2%	1.2%	1.2%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirements under Pillar II B	8.5%	8.5%	8.5%
Total capital requirements	15.8%	18.2%	21.4%
Total capital ratio 31.03.18	24.6%	24.6%	24.7%

Total capital requirements as defined by FME



Risk weighted assets



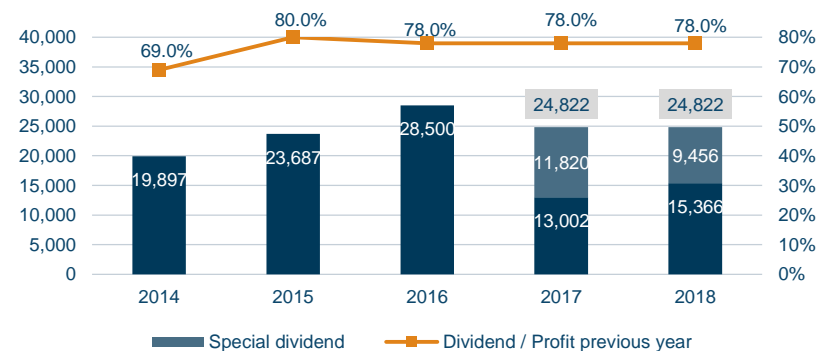
- The final impact of adopting IFRS 9 1 January 2018:
 - Common Equity Tier 1 capital decreases by 0.04 percentage point
 - The total capital ratio decreases by 0.49 percentage points

Dividend payments and change in capital ratio

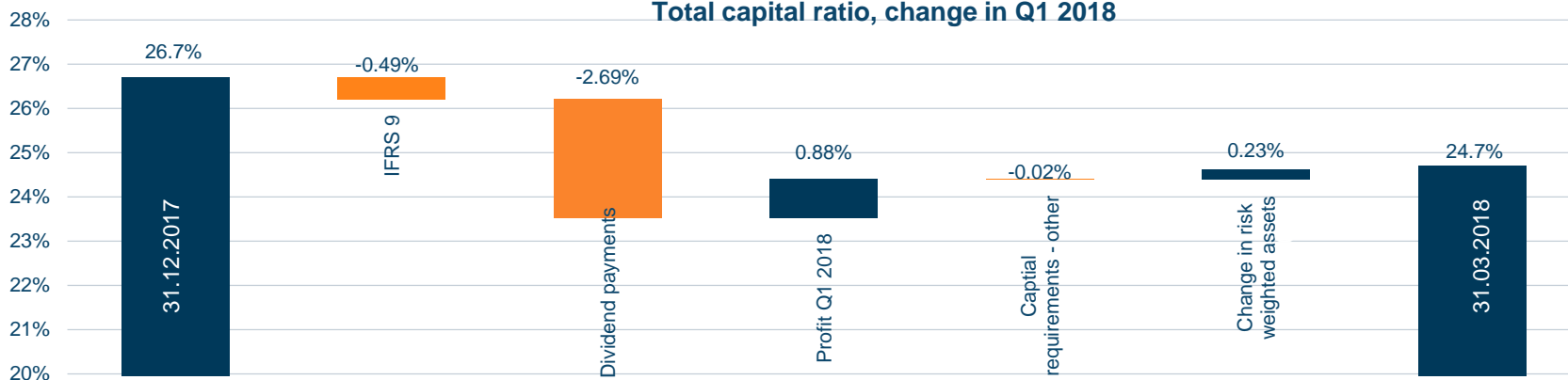
Dividend payments in 2018:

- Regular dividend of ISK 0.65/share
 - The total amount is ISK 15,366 m
 - This is equivalent to 78% of the previous year's profit.
 - Reduces the Bank's equity ratio by 1.66 percentage points.
- Special dividend of ISK 9,456 bn will be paid in September 2018

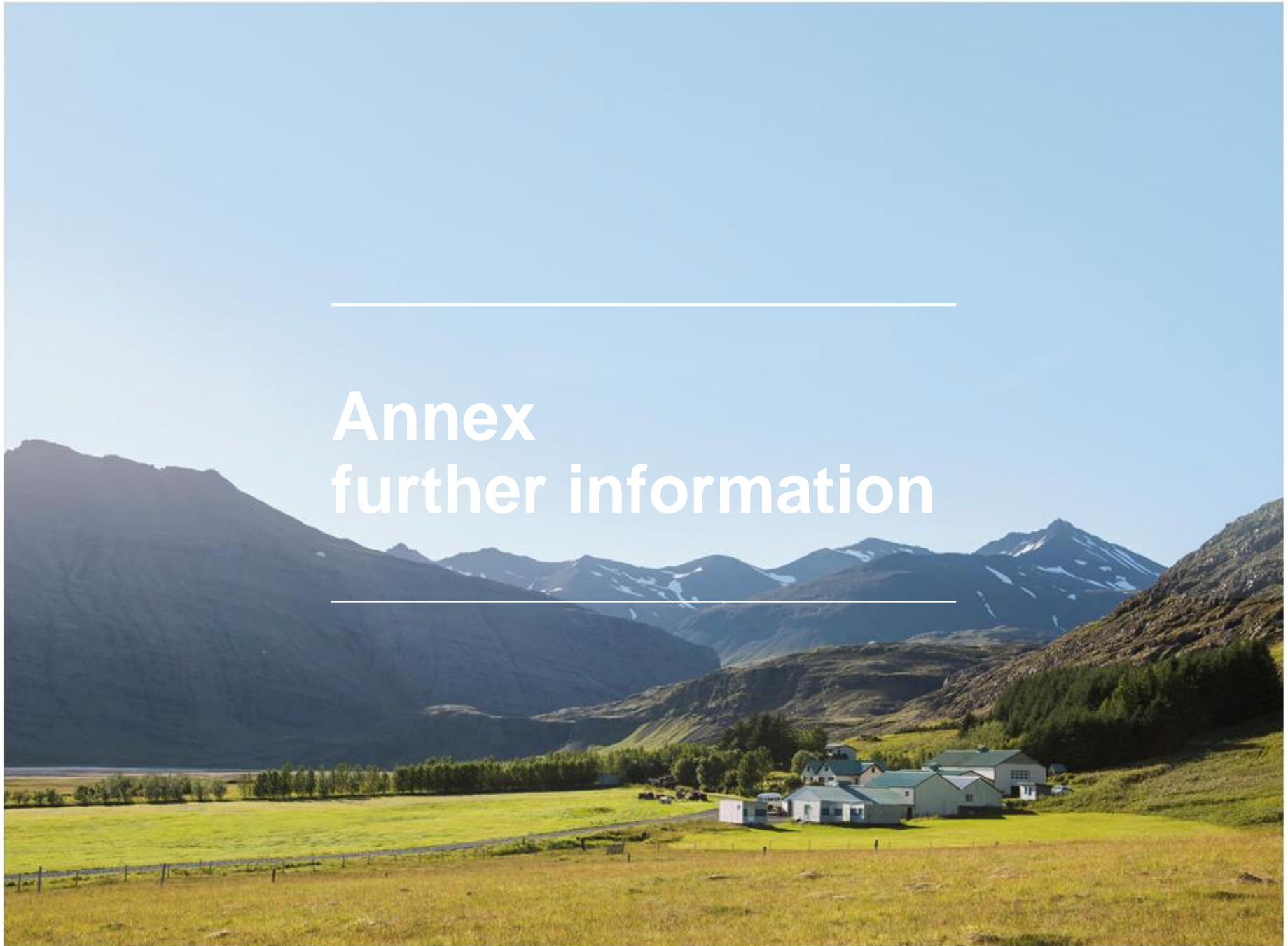
Dividend payments



Total capital ratio, change in Q1 2018



Annex further information



Key financial ratios

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	2017	2016	2015	2014
Profit after taxes	8,102	2,925	4,188	5,077	7,576	19,766	16,643	36,460	29,737
Return on equity before taxes	18.3%	9.3%	11.1%	12.6%	16.2%	12.3%	9.9%	19.9%	16.7%
Return on equity after taxes	13.7%	4.8%	6.9%	8.6%	12.5%	8.2%	6.6%	14.8%	12.5%
After tax return on average assets	2.7%	1.0%	1.4%	1.7%	2.7%	1.7%	1.5%	3.2%	2.6%
Total capital ratio	24.7%	26.7%	26.8%	27.6%	27.4%	26.7%	30.2%	30.4%	29.5%
Net interest income	9,641	9,201	8,894	10,158	8,018	36,271	34,650	32,324	28,073
Interest spread as a ratio of assets and liabilities	2.7%	2.5%	2.5%	2.9%	2.2%	2.5%	2.3%	2.2%	1.9%
Cost-income ratio	37.9%	50.7%	48.7%	43.6%	42.5%	46.1%	48.4%	43.8%	56.0%
Net stable funding ratio NSFR total	120%	124%	126%	125%	122%	124%	123%		
Net stable funding ratio NSFR FX	168%	179%	185%	169%	159%	179%	154%	136%	134%
Liquidity ratio LCR total	171%	157%	158%	183%	158%	157%	128%	113%	131%
Liquidity LCR FX	751%	931%	873%	470%	153%	931%	743%	360%	614%
Operating expenses as a ratio of average total assets	2.0%	2.1%	1.9%	2.1%	2.1%	2.0%	2.1%	2.1%	2.1%
Total assets	1,206,148	1,192,870	1,198,959	1,170,628	1,182,467	1,192,870	1,111,157	1,118,658	1,098,370
Loans / deposits ratio	150.6%	153.0%	141.8%	138.6%	146.7%	153.0%	144.7%	145.2%	130.3%
Full-time eqv.positions	998	997	998	988	1,000	997	1,012	1,063	1,126

Operations

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	2017	2016	2015	2014
Net interest income	9,641	9,201	8,894	10,158	8,018	36,271	34,650	32,324	28,073
Net valuation adjustments	1,024	-283	766	-478	1,779	1,785	-318	18,216	20,128
Net interest income after valuation adjustments	10,665	8,919	9,660	9,680	9,797	38,056	34,332	50,540	48,201
Net fee commission income	1,691	1,840	2,159	2,316	2,116	8,431	7,809	6,841	5,836
Net foreign exchange gain (loss)	-70	-482	-10	-518	-365	-1,375	-179	-1,277	67
Other net operating income	4,547	1,593	545	2,097	4,165	8,400	6,738	16,507	9,510
Total operating income	16,832	11,870	12,354	13,575	15,713	53,512	48,700	72,611	63,614
Salaries and related expenses	3,663	3,753	3,163	3,654	3,419	14,061	14,049	13,754	13,567
Other operating expenses	2,335	2,411	2,475	2,477	2,426	9,789	9,465	9,978	10,521
Total operating expenses	5,998	6,164	5,638	6,131	5,917	23,850	23,514	23,732	24,088
Profit before tax	10,834	5,706	6,716	7,444	9,796	29,662	25,186	48,879	39,526
Income tax expense	2,732	2,782	2,527	2,367	2,220	9,896	8,543	12,419	9,789
Profit for the period	8,102	2,925	4,188	5,077	7,576	19,766	16,643	36,460	29,737

Balance Sheet

	31.3.2018	31.12.2017	Change		31.12.2016	31.12.2015	31.12.2014
Cash and balances with CB	82,266	55,192	27,074	49%	30,662	25,164	10,160
Bonds and debt instruments	100,216	117,310	-17,094	-15%	154,892	203,684	243,589
Equities and equity instruments	25,666	27,980	-2,314	-8%	26,688	29,192	29,433
Loans and advances to fin institutions	41,796	44,866	-3,070	-7%	20,408	20,791	49,789
Loans and advances to customers	936,636	925,636	11,000	1%	853,417	811,549	718,355
Other assets	17,455	18,238	-782	-4%	17,641	16,323	28,832
Assets classified as held for sale	2,113	3,648	-1,535	-42%	7,449	11,955	18,212
Total	1,206,148	1,192,870	13,278	1%	1,111,157	1,118,658	1,098,370
Due to financial institutions and CB	30,943	32,062	-1,119	-3%	20,093	56,731	53,827
Deposits from customers	622,021	605,158	16,863	3%	589,725	559,051	551,435
Borrowings	284,484	281,874	2,610	1%	223,944	209,344	207,028
Other liabilities	39,984	27,616	12,368	45%	24,681	26,844	32,443
Liabilities associated with assets classified as held for sale	41	27	14	52%	1,095	1,518	2,834
Subordinated liabilities	74	77	-3	-4%	388	639	0
Equity	228,601	246,056	-17,455	-7%	251,231	264,531	250,803
Total	1,206,148	1,192,870	13,278	1%	1,111,157	1,118,658	1,098,370

Segments

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
Net interest income (expense)	3,872	4,266	139	1,362	6	-4	9,641
Net valuation adjustments	531	499	0	2	-8	0	1,024
Net fee and commission income (expense)	764	223	822	-98	32	-52	1,691
Other net operating income (expense)	121	-13	388	1,750	2,235	-5	4,476
Total operating income (expense)	5,288	4,975	1,349	3,016	2,265	-61	16,832
Operating expenses	-1,589	-479	-546	-425	-3,017	58	-5,998
Cost allocated from support functions to business segments	-1,219	-743	-373	-205	2,540	0	0
Profit (loss) before tax	2,480	3,753	430	2,386	1,788	-3	10,834
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Total assets	434,662	504,323	16,776	466,504	13,683	-229,800	1,206,148
Total liabilities	387,206	394,179	9,396	402,883	13,683	-229,800	977,547
Allocated capital	47,456	110,144	7,380	63,621	0	0	228,601